



GOVERNOR ARNOLD SCHWARZENEGGER

October 21, 2005

The Honorable Joe Barton
Chairman
Energy and Commerce Committee
U. S. House of Representatives
Washington, DC 20515

The Honorable John D. Dingell
Ranking Member
Energy and Commerce Committee
U. S. House of Representatives
Washington, DC 20515

Dear Chairman Barton and Mr. Dingell,

As you finalize negotiations on budget reconciliation targets designated for your Committee, I would like to state my personal appreciation for the difficult task you face in finding savings in the numerous programs under your jurisdiction.

As Governor of California, I have also been faced with difficult budget decisions. Upon entering office I faced budget shortfalls approaching \$25 billion, and as I promised the people of California, I continue to work diligently to put the State's fiscal house in order. With much hard work, the State Legislature and I have made progress in closing our ongoing fiscal gap, but much remains to be done. Throughout this effort, I have placed a top priority on protecting essential health services for those most in need in California. Notwithstanding our budget gaps, we have managed to stave off program cuts to our Medi-Cal program and its beneficiaries.

At the same time, we have managed to create significant savings in Medi-Cal spending by aggressively pursuing cost containment. One such area where California is a national leader is our Medi-Cal pharmacy program. In addition to providing significant savings to the State, the prescription drug purchasing reforms I enacted will generate savings to the federal government in excess of \$1.1 billion through 2011. I have also proposed the expansion of Medicaid managed care for some of the highest cost populations, including the aged, blind and disabled. The goals are multi-prong and include improving overall care and health outcomes, more closely aligning the public and private insurance markets and generating hundreds of millions of dollars in savings annually for both the State and federal government. States and the federal government must be partners in managing the federal Medicaid program. As partners, any such reforms must be driven by sound public policy irrespective of the potential budget savings, must generate savings for both the federal government and the states and must be easily implemented.

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The Committee proposal to eliminate a state's ability to collect a Medicaid managed care provider tax, as currently allowed under federal law, will have a devastating impact on California's ability to attract managed care providers to our Medi-Cal program. The elimination of this taxing flexibility will shift Medicaid costs from the federal government to California. It also undermines one of the proven methods of reducing long-term program costs – managing and coordinating a recipients' health care rather than leaving them in the fee-for-service system where care is uncoordinated and inefficient.

California is using its Medicaid managed care assessment (Quality Improvement Fee in California) to improve rates for Medi-Cal managed care providers. California's managed care rates have been tightly controlled for many years to successfully hold down overall program costs for both the state and the federal government. The ultimate goal is to make Medicaid managed care rates more competitive in California. Competitive rates can lead to more choices for beneficiaries, increased participation in coordinated care plans, improved access to care and enhanced health care outcomes through the provision of more preventive services, including disease management tools for chronic illness. Taken together, these actions can prevent the need for costly inpatient hospital stays or at least reduce length of stay from chronic medical episodes.

My Administration supports the Congressional intent of lowering the long-term costs of public health programs through more private sector competition and better coordination of care for beneficiaries. California's Medicaid managed care Quality Improvement Fee is an appropriate and responsible mechanism to achieve our mutually shared goals.

As a result, I strongly urge you to eliminate from consideration the proposal to end California's ability to collect Medicaid managed care provider taxes. I appreciate your time and consideration in this matter and stand ready to work together to address long term reforms in the Medicaid program.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold Schwarzenegger", with a stylized, cursive script.

Arnold Schwarzenegger

cc: The Honorable J. Dennis Hastert
The Honorable Nancy Pelosi
The Honorable Nathan Deal
The Honorable Sherrod Brown
California Congressional Delegation